GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:498
ANSWERED ON:26.02.2016
Lending Rate Based Interest Rates
Arunmozhithevan Shri A.

Will the Minister of FINANCE be pleased to state:

(a) whether banks will determine lending rate based on a new formula which will ensure that any reduction in interest rates is instantly passed on to borrowers, including home loan borrowers;

(b) if so, the details thereof;

(c) whether the new formula introduced by the RBI is to ensure that loan pricing is fair and banks remain competitive; and

(d) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(a) to (d): Reserve Bank of India (RBI) has issued guidelines on computing interest rates on advances based on the Marginal Cost of Funds based Lending Rate (MCLR) to banks vide its circular DBR.No.Dir.BC.67/13.03.00/2015-16 dated December 17, 2015 which will be effective from April 1, 2016. Apart from helping improve the transmission of policy rates into the lending rates of banks, these guidelines are expected to improve transparency in the methodology followed by banks for determining interest rates on advances. These guidelines are also expected to ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks. Further, marginal cost of pricing of loans will help the banks to become more competitive and enhance their long run value and contribution to economic growth.
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